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photo engravers & electrotypers Ltd.

Annual Report 1976



leaders in the graphic arts since 1906

photo engravers & electrotypers ltd.

Directors and Officers

J. R. SHAW, *President*

JAMES M. TORY, Q.C., *Vice-President*

JOHN S. DINNICK

GORDON R. GILLIES

H. B. KEENLEYSIDE, C.B.E.

DOUGLAS J. PEACHER

D. S. PORTER, C.A., *Secretary and Treasurer*

AUDITORS, *Clarkson, Gordon & Co.*

SOLICITORS, *Tory, Tory, DesLauriers & Binnington*

BANKER, *The Bank of Nova Scotia*

TRANSFER AGENT, *National Trust Company, Limited*

REGISTRAR, *Crown Trust Company*

HEAD OFFICE and PLANT, 2250 Islington Ave., Rexdale, Ontario, M9W 3W4

photo engravers & electrotypers ltd.

Financial Highlights

EARNINGS	1976	1975
Sales - - - - -	\$14,150,930	\$14,333,811
Depreciation - - - - -	625,006	649,901
Income taxes - - - - -	539,000	595,000
Net earnings - - - - -	745,674	840,793
Net earnings per share - - - - -	4.10	4.62
Dividends paid - - - - -	370,974	363,700
Dividends paid per share - - - - -	2.04	2.00
BALANCE SHEET		
Additions to fixed assets - - - - -	\$ 525,823	\$ 865,316
Shareholders' equity - - - - -	6,046,486	5,671,786
Shareholders' equity per share - - - - -	33.25	31.19

photo engravers & electrotypers Ltd.

Directors' Report to the Shareholders

Your directors are pleased to submit the annual report of the Company for 1976, together with the financial statements and accompanying auditors' report.

SALES AND EARNINGS In 1976, sales amounted to \$14,150,930 compared with \$14,333,811 in 1975. After meeting all charges, including a provision of \$625,006 for depreciation of plant and equipment, and a provision of \$539,000 for income taxes, there remained earnings of \$745,674 or \$4.10 per share compared with \$840,793 or \$4.62 per share for the previous year. The reduction in earnings in 1976 compared with 1975 is a result of a ten week strike by our printing pressmen and paper-handlers during our second quarter.

DIVIDENDS Quarterly dividends of 50 cents per share were paid March 1, June 1 and September 1, 1976 while a quarterly dividend of 54 cents per share was paid December 1, 1976, making a total distribution to shareholders of \$2.04 per share or \$370,974 for the year compared with a total payment of \$2.00 per share or \$363,700 in 1975.

NEW FACILITIES The system for recovery of solvent became operative in June, 1976. The cost of this system totalled \$1,232,500.

WORKING CAPITAL As a result of our recent expansion programmes, current liabilities exceeded current assets by \$201,506 as at December 31, 1976. Through fast write-off provisions made available for income tax purposes for expenditures on machinery and equipment, a portion of taxes otherwise payable for the year has been deferred as reflected in the Statement of Earnings and Earnings Employed in the Business.

EARNINGS EMPLOYED IN THE BUSINESS As at December 31, 1976 earnings employed in the business amounted to \$5,151,957 compared to \$4,777,257 last year.

SHAREHOLDERS' EQUITY Total shareholders' equity amounted to \$6,046,486 equal to \$33.25 per share, compared with \$5,671,786 or \$31.19 per share a year ago.

ANTI-INFLATION ACT The Company is subject to and is in compliance with the terms and provisions of the Act that have been in effect since October 14, 1975. The dividend increase of 8% paid on December 1, 1976 is in accordance therewith.

We expect an increase in sales during 1977 as compared with 1976, but, under present operating circumstances, the net earnings will be governed by the Anti-Inflation Act. Notwithstanding this compliance, we expect a recovery in our net earnings for 1977.

DIRECTORS AND OFFICERS Mr. G. R. Gillies retired on October 26, 1976 after 36 years of service, the last eleven of which were served as President. While Mr. Gillies will continue as a director, we wish to take this opportunity to thank him for his notable contributions to the Company's success during his term of office.

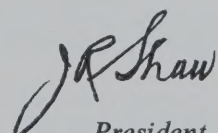
Mr. J. R. Shaw, formerly Vice-President, was elected to succeed Mr. G. R. Gillies.

Mr. H. B. Keenleyside will not stand for re-election to the Board of Directors. He was elected a director in 1946 and served as President of the Company from that time until 1966. Over the period of more than 30 years, Mr. Keenleyside has played an important part in the growth and development of the Company. We wish to record our deep appreciation of his good judgement and experience.

It is proposed to elect Mr. Alex Campbell, Vice-President, Operating of Simpsons-Sears Limited, to the Board of Directors.

We extend sincere appreciation to our employees who contributed so much to the high standards of quality and service to our customers.

On behalf of the Board,


President.

Toronto, Canada,
January 25, 1977.

photo engravers

(Incorporated under the laws of the State of California)

BALANCE SHEET

December 31, 1976

(with comparative figures for 1975)

ASSETS

	1976	1975
CURRENT:		
Cash - - - - -	\$ 49,198	\$ 31,334
Accounts receivable - - - - -	458,808	404,835
Portion of notes due within one year under Employees' Stock Purchase Plans (note 4) - - - - -	10,940	23,036
Inventories (note 2) - - - - -	1,244,328	1,441,105
Total current assets - - - - -	1,763,274	1,900,310
FIXED, AT COST:		
Land and roadways - - - - -	171,963	171,963
Buildings - - - - -	4,614,327	4,614,327
Machinery and equipment - - - - -	11,447,122	10,968,274
	16,233,412	15,754,564
Less accumulated depreciation - - - - -	7,503,178	6,916,982
	8,730,234	8,837,582
OTHER:		
Notes due under Employees' Stock Purchase Plans (note 4) - - - - -	43,758	54,697
	<u>\$10,537,266</u>	<u>\$10,792,589</u>

(See accompanying notes)

On behalf of the Board:

J. R. SHAW, *Director*

J. M. TORY, *Director*

Electrotypers Ltd.

(Incorporated in the laws of Canada)

BALANCE SHEET

As at December 31, 1976

(Expressed in dollars at December 31, 1975)

LIABILITIES AND SHAREHOLDERS' EQUITY

	1976	1975
CURRENT:		
Operating bank loan - - - - -		\$ 120,000
Accounts payable and accrued charges - - - - -	\$ 1,005,740	1,008,749
Income and other taxes payable - - - - -	459,040	604,054
Portion of term bank loan due within one year - - - - -	500,000	500,000
Total current liabilities - - - - -	1,964,780	2,232,803
TERM BANK LOAN (note 3) - - - - -	150,000	650,000
DEFERRED INCOME TAXES - - - - -	2,376,000	2,238,000
	4,490,780	5,120,803
SHAREHOLDERS' EQUITY:		
Capital stock—		
Authorized:		
250,000 shares, no par value		
Issued:		
181,850 shares - - - - -	894,529	894,529
Earnings employed in the business - - - - -	5,151,957	4,777,257
	6,046,486	5,671,786
	<u>\$10,537,266</u>	<u>\$10,792,589</u>

(Expressed in dollars in the financial statements)

Auditors' Report

To the Shareholders of
PHOTO ENGRAVERS & ELECTROTYPERS LIMITED:

We have examined the balance sheet of Photo Engravers & Electrotypers Limited as at December 31, 1976 and the statements of earnings and earnings employed in the business and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company as at December 31, 1976 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada,
January 13, 1977.

Clarkson, Gordon & Co.
Chartered Accountants

photo engravers & electrotypers ltd.

Statement of Earnings and Earnings Employed in the Business

Year ended December 31, 1976

(with comparative figures for the year 1975)

	1976	1975
SALES (note 6) - - - - -	\$14,150,930	\$14,333,811
COST OF SALES and all expenses, except the items noted below - - -	11,405,719	11,457,358
Administrative and general expenses - - - - -	627,493	555,462
Provision for depreciation - - - - -	625,006	649,901
Interest expense on term bank loan - - - - -	108,399	154,843
Interest expense on current bank loan - - - - -	99,639	80,454
	12,866,256	12,898,018
EARNINGS BEFORE PROVISION FOR INCOME TAXES - - - -	1,284,674	1,435,793
Provision for income taxes (includes deferred income taxes 1976—\$138,000; 1975—\$84,000) - - - - -	539,000	595,000
EARNINGS FOR THE YEAR* - - - - -	745,674	840,793
EARNINGS EMPLOYED IN BUSINESS, BEGINNING OF YEAR -	4,777,257	4,300,164
	5,522,931	5,140,957
Less dividends paid (1976—\$2.04 per share; 1975—\$2.00 per share) -	370,974	363,700
EARNINGS EMPLOYED IN BUSINESS, END OF YEAR - - - -	\$ 5,151,957	\$ 4,777,257
*EARNINGS PER SHARE - - - - -	\$4.10	\$4.62

(See accompanying notes to financial statements)

photo engravers & electrotypers ltd.

Statement of Changes in Financial Position

Year ended December 31, 1976

(with comparative figures for the year 1975)

	1976	1975
WORKING CAPITAL WAS PROVIDED BY:		
Operations* - - - - -	\$1,504,420	\$1,574,694
Proceeds from sale of fixed assets - - - - -	12,424	9,555
Repayment of notes due under Employees' Stock Purchase Plans - -	10,940	25,214
	<u>1,527,784</u>	<u>1,609,463</u>
WORKING CAPITAL WAS USED FOR:		
Additions to fixed assets (net of investment tax credit of \$27,334 in 1976) - - - - -	525,823	865,316
Reduction in term bank loan - - - - -	500,000	500,000
Dividends - - - - -	370,974	363,700
	<u>1,396,797</u>	<u>1,729,016</u>
INCREASE (DECREASE) IN WORKING CAPITAL - - - - -	130,987	(119,553)
WORKING CAPITAL (DEFICIENCY), BEGINNING OF YEAR - -	(332,493)	(212,940)
WORKING CAPITAL (DEFICIENCY), END OF YEAR - - - - -	<u>\$ (201,506)</u>	<u>\$ (332,493)</u>
CHANGES IN COMPONENTS OF WORKING CAPITAL:		
Increase (decrease) in current assets—		
Cash - - - - -	\$ 17,864	\$ (73,041)
Accounts receivable - - - - -	53,973	8,426
Portion of notes due within one year under Employees' Stock Purchase Plans - - - - -	(12,096)	(363)
Inventories - - - - -	(196,777)	(6,067)
	<u>(137,036)</u>	<u>(71,045)</u>
Increase (decrease) in current liabilities—		
Operating bank loan - - - - -	(120,000)	(80,000)
Accounts payable and accrued charges - - - - -	(3,009)	131,253
Income and other taxes payable - - - - -	(145,014)	(2,745)
	<u>(268,023)</u>	<u>48,508</u>
INCREASE (DECREASE) IN WORKING CAPITAL - - - - -	<u>\$ 130,987</u>	<u>\$ (119,553)</u>

*Net earnings adjusted for charges or credits which do not affect working capital.

(See accompanying notes to financial statements)

photo engravers & electrotypers Ltd.

Notes to Financial Statements

December 31, 1976

1. SIGNIFICANT ACCOUNTING POLICIES

Inventories—

Inventories of work in process are valued at the lower of cost, less progress payments received, and net realizable value. Other inventories are valued at the lower of cost, applied on a first-in, first-out basis, and market value determined on the basis of replacement cost.

Depreciation—

Charges are made against earnings for depreciation of investment in buildings, machinery and equipment based on the estimated remaining useful lives of the assets using the straight-line method. The rates of depreciation are generally 2½% for buildings and roadways and 6½% for machinery and equipment.

Income taxes—

The Company provides for income taxes on the tax allocation basis whereby the provision for income taxes each year is computed on the basis of the depreciation and other charges reflected in the statement of earnings rather than the related amounts claimed as deductions in the Company's tax return.

2. INVENTORIES

Inventories consist of the following:

	1976	1975
Work in process (net) - - - - -	\$1,011,081	\$ 932,227
Paper stock - - - - -	3,443	316,065
Other materials and supplies - - - - -	229,804	192,813
	<u>\$1,244,328</u>	<u>\$1,441,105</u>

3. TERM BANK LOAN

The term bank loan bears an annual rate of interest of 1% over the commercial bank prime rate of interest and is repayable in equal quarterly instalments of \$125,000. This loan is evidenced by demand notes, and the Company has undertaken not to pledge or otherwise encumber any of its assets while any portion of the loan is outstanding.

4. EMPLOYEES' STOCK PURCHASE PLANS

In 1971, officers and senior management of the Company subscribed for and purchased shares of the Company under an Employees' Stock Purchase Plan. The shares were issued at the current market price on the day prior to the subscription date, for consideration in the form of non-interest bearing promissory notes. These notes are secured by a pledge of shares of the Company and are due in equal annual instalments over ten years from the date of issue.

5. PENSION PLANS

The majority of the Company's employees are covered by retirement plans. The amount charged to income in 1976 (including amounts paid to the government pension plan) was \$207,000 (\$196,600 in 1975), which amounts included amortization of prior service costs. The unfunded prior service pension costs at December 31, 1976 were estimated to total \$243,000 (\$257,100 in 1975) (approximately equal to the value of the vested benefits at that date) and these will be charged to operations on a straight-line basis over the next thirteen years.

6. SALES TO MAJOR CUSTOMER

Significantly more than one-half of the Company's sales are made to Simpsons-Sears Limited pursuant to a long-term contract extending to 1978.

7. REMUNERATION OF DIRECTORS AND OFFICERS

The aggregate remuneration in 1976 of the Company's six directors, as directors, was \$5,100 (\$5,100 in 1975). The aggregate remuneration in 1976 of the Company's three officers, as officers, was \$176,100 (\$177,900 in 1975). Two directors were also officers of the Company during 1976.

8. ANTI-INFLATION PROGRAM

Under the federal government's anti-inflation program (presently scheduled to be in force until December 31, 1978) the Company is subject to mandatory compliance with legislation which controls prices, profit margins, employee compensation and shareholder dividends. Under the present guidelines dividends to the Company's shareholders during the year ending October 13, 1977 may not exceed \$2.16 per share. Management is of the opinion that the Company is in compliance with the requirements of the anti-inflation legislation.

photo engravers & electrotypers ltd.

Ten Years' Review

Earnings

Year	Sales	Provision for Depreciation	Earnings Before Income Taxes	Net Earnings	Net Earnings Per Share	Dividends Per Share
1967	\$ 5,960,022	\$327,032	\$ 564,640	\$282,140	\$1.61	\$.80
1968	6,495,118	360,111	608,186	293,486	1.68	.80
1969	7,347,776	501,444	691,336	323,736	1.85	.86
1970	8,228,668	486,597	690,195	327,195	1.87	.92
1971	8,461,994	504,362	834,293	422,793	2.35	.97
1972	8,748,533	507,528	849,639	443,639	2.44	1.12
1973	10,335,867	533,012	1,026,926	587,926	3.23	1.20
1974	13,953,318	642,619	1,398,973	815,973	4.49	1.60
1975	14,333,811	649,901	1,435,793	840,793	4.62	2.00
1976	14,150,930	625,006	1,284,674	745,674	4.10	2.04

Balance Sheet

Year	Working Capital (Deficiency)	Plant and Equipment at Cost	Plant and Equipment After Depreciation	Long Term Debt		Shareholders' Equity	Shareholders' Equity Per Share
				Funded Debt	Term Bank Loan		
1967	\$244,788	\$ 7,641,891	\$4,255,915	\$250,000	\$ 255,000	\$3,206,091	\$18.32
1968	(611,244)	9,477,706	5,738,084		712,000	3,359,577	19.20
1969	(539,181)	10,633,676	6,399,648		1,144,000	3,532,813	20.19
1970	(991,492)	12,068,972	7,435,020		1,410,000	3,699,008	21.14
1971	(859,653)	12,261,782	7,131,953		920,000	4,060,007	22.33
1972	(479,522)	12,800,280	7,172,788		1,000,000	4,299,974	23.65
1973	(954,589)	14,710,330	9,042,960		1,650,000	4,669,680	25.68
1974	(212,940)	14,911,097	8,631,722		1,150,000	5,194,693	28.57
1975	(332,493)	15,754,564	8,837,582		650,000	5,671,786	31.19
1976	(201,506)	16,233,412	8,730,234		150,000	6,046,486	33.25



Artists

Photographers

Rotogravure Engravers

Rotogravure Printers

Bookbinders